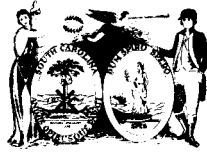


State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200  
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA  
STATE AUDITOR

(803) 253-4160  
FAX (803) 343-0723

January 20, 2005

Ms. Linda A. Holtzscheiter, Reimbursement Manager  
Mariner Health Care  
5300 West Sam Houston Parkway North  
Houston, Texas 77041

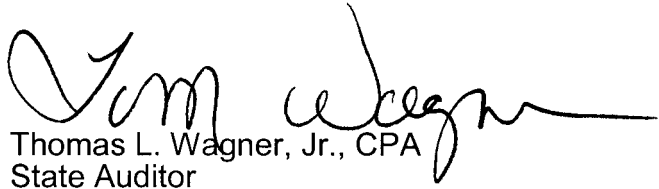
Re: AC# 3-JOL-J2 – GranCare South Carolina, Inc. d/b/a Jolley Acres Healthcare Center

Dear Ms. Holtzscheiter:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 2001 through September 30, 2002. That report was used to set the rate covering the contract period beginning October 1, 2003.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

  
Thomas L. Wagner, Jr., CPA  
State Auditor

TLWjr/cwc

cc: Ms. Brenda L. Hyleman  
Mr. Jeff Saxon  
Ms. Kathleen C. Snider

**GRANCARE SOUTH CAROLINA, INC.  
D/B/A JOLLEY ACRES HEALTHCARE CENTER**

**ORANGEBURG, SOUTH CAROLINA**

**CONTRACT PERIOD  
BEGINNING OCTOBER 1, 2003  
AC# 3-JOL-J2**

**AGREED-UPON PROCEDURES REPORT  
ON CONTRACT  
FOR  
PURCHASE OF NURSING CARE SERVICES  
WITH  
STATE OF SOUTH CAROLINA  
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

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# State of South Carolina



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### INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

October 28, 2004

Department of Health and Human Services  
State of South Carolina  
Columbia, South Carolina

We have performed the procedures enumerated below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with GranCare South Carolina, Inc. d/b/a Jolley Acres Healthcare Center, for the contract period beginning October 1, 2003, and for the twelve month cost report period ended September 30, 2002, as set forth in the accompanying schedules. The management of GranCare South Carolina, Inc. d/b/a Jolley Acres Healthcare Center is responsible for the Financial and Statistical Report for Nursing Homes and supporting accounting and statistical records. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the South Carolina Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

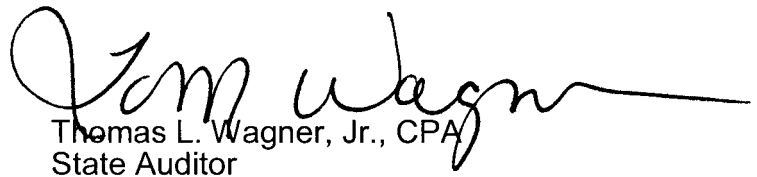
The procedures and the associated findings are as follows:

1. We selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by GranCare South Carolina, Inc. d/b/a Jolley Acres Healthcare Center, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the Provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the South Carolina Department of Health and Human Services and GranCare South Carolina, Inc. d/b/a Jolley Acres Healthcare Center dated as of October 1, 2001 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services  
State of South Carolina  
October 28, 2004

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the financial statements or a part thereof. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.



Thomas L. Wagner, Jr., CPA  
State Auditor

**JOLLEY ACRES HEALTHCARE CENTER**

Computation of Rate Change  
For the Contract Period  
Beginning October 1, 2003  
AC# 3-JOL-J2

	10/01/03- <u>09/30/04</u>
Interim Reimbursement Rate (1)	\$103.55
Adjusted Reimbursement Rate	<u>101.16</u>
Decrease in Reimbursement Rate	\$ <u>2.39</u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing as of July 12, 2004

**JOLLEY ACRES HEALTHCARE CENTER**  
Computation of Adjusted Reimbursement Rate  
For the Contract Period October 1, 2003 Through September 30, 2004  
AC# 3-JOL-J2

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$46.47	\$ 75.83	
Dietary		9.29	13.04	
Laundry/Housekeeping/Maintenance		<u>8.88</u>	<u>10.85</u>	
Subtotal	<u>\$6.98</u>	64.64	99.72	\$ 64.64
Administration & Medical Records	<u>\$2.96</u>	<u>13.27</u>	<u>16.23</u>	<u>13.27</u>
Subtotal		77.91	<u>\$115.95</u>	77.91
<u>Costs Not Subject to Standards:</u>				
Utilities		1.93		1.93
Special Services		-		-
Medical Supplies & Oxygen		4.49		4.49
Taxes and Insurance		4.08		4.08
Legal Fees		<u>-</u>		<u>-</u>
<b>TOTAL</b>		<u>\$88.41</u>		88.41
Inflation Factor (4.70%)				4.16
Cost of Capital				6.95
Cost of Capital Limitation				(.11)
Profit Incentive (Maximum 3.5% of Allowable Cost)				2.96
Cost Incentive				6.98
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(8.19)</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$101.16</u>

**JOLLEY ACRES HEALTHCARE CENTER**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 2002  
AC# 3-JOL-J2

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
General Services	\$1,008,645	\$ -	\$15,637 (4) 767 (4) 5,695 (5) 9,661 (6)	\$976,885
Dietary	197,109	-	1,881 (4)	195,228
Laundry	49,843	-	672 (4)	49,171
Housekeeping	75,769	556 (7)	1,146 (4) 537 (8)	74,642
Maintenance	61,868	1,425 (5) 451 (7)	500 (4) 449 (8)	62,795
Administration & Medical Records	283,126	7,186 (5) 345 (7)	6,866 (3) 4,073 (4) 361 (6) 313 (8)	279,044
Utilities	40,501	295 (7)	1 (5) 290 (8)	40,505
Special Services	-	1,884 (5) 22 (6)	1,906 (4)	-
Medical Supplies & Oxygen	99,575	-	5,260 (6)	94,315
Taxes and Insurance	86,159	1,440 (5) 576 (7)	1,734 (2) 564 (8)	85,877



**JOLLEY ACRES HEALTHCARE CENTER**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 2002  
AC# 3-JOL-J2

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	Adjustments <u>Debit</u>	<u>Credit</u>	<u>Adjusted Totals</u>
Legal Fees	1	-	-	1
Cost of Capital	147,790	325 (7) 11,939 (9)	1,734 (1) 12,066 (5) <u>151 (8)</u>	146,103
Subtotal	2,050,386	26,444	72,264	2,004,566
Ancillary	55,413	-	-	55,413
Nonallowable	436,256	1,734 (1) 1,734 (2) 6,866 (3) 26,582 (4) 5,827 (5) 15,260 (6) <u>2,304 (8)</u>	2,548 (7) 11,939 (9)     <u>-</u>	482,076
Total Operating Expenses	<u>\$2,542,055</u>	<u>\$86,751</u>	<u>\$86,751</u>	<u>\$2,542,055</u>
Total Patient Days	<u>21,024</u>	<u>-</u>	<u>-</u>	<u>21,024</u>
Total Beds	<u>60</u>			

**JOLLEY ACRES HEALTHCARE CENTER**  
Adjustment Report  
Cost Report Period Ended September 30, 2002  
AC# 3-JOL-J2

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Accumulated Depreciation	\$ 41,026	
	Other Equity	3,131	
	Nonallowable	1,734	
	Fixed Assets		\$ 44,157
	Cost of Capital		1,734
	To adjust fixed assets and related depreciation		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
2	Nonallowable	1,734	
	Taxes and Insurance		1,734
	To adjust liability insurance expense		
	HIM-15-1, Section 2304		
3	Nonallowable	6,866	
	Administration		6,866
	To reclassify expense to the proper cost center		
	HIM-15-1, Sections 2102.3 and 2304		
	DH&HS Expense Crosswalk		
4	Nonallowable	26,582	
	Nursing		15,637
	Restorative		767
	Dietary		1,881
	Laundry		672
	Housekeeping		1,146
	Maintenance		500
	Administration		4,073
	Special Services		1,906
	To adjust fringe benefits and related allocation		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		

**JOLLEY ACRES HEALTHCARE CENTER**  
Adjustment Report  
Cost Report Period Ended September 30, 2002  
AC# 3-JOL-J2

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
5	Maintenance	1,425	
	Administration	7,186	
	Taxes and Insurance	1,440	
	Special Services	1,884	
	Nonallowable	5,827	
	Nursing		5,695
	Utilities		1
	Cost of Capital		12,066
	To adjust home office cost allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
6	Special Services	22	
	Nonallowable	15,260	
	Nursing		9,661
	Administration		361
	Medical Supplies		5,260
	To remove special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		
7	Housekeeping	556	
	Maintenance	451	
	Administration	345	
	Utilities	295	
	Taxes and Insurance	576	
	Cost of Capital	325	
	Nonallowable		2,548
	To reverse DH&HS adjustment to remove indirect cost applicable to a non-reimbursable cost center HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		

**JOLLEY ACRES HEALTHCARE CENTER**  
Adjustment Report  
Cost Report Period Ended September 30, 2002  
AC# 3-JOL-J2

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
8	Nonallowable	2,304	
	Housekeeping		537
	Maintenance		449
	Administration		313
	Utilities		290
	Taxes and Insurance		564
	Cost of Capital		151
	To remove indirect cost applicable to a non-reimbursable cost center HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
9	Cost of Capital	11,939	
	Nonallowable		11,939
	To adjust capital return State Plan, Attachment 4.19D		
		<hr/>	<hr/>
	TOTAL ADJUSTMENTS	<u>\$130,908</u>	<u>\$130,908</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

**JOLLEY ACRES HEALTHCARE CENTER**  
Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended September 30, 2002  
AC# 3-JOL-J2

Original Asset Cost (Per Bed)	\$ 15,618	\$ 15,618	
Inflation Adjustment	<u>2.55013</u>	<u>2.55013</u>	
Deemed Asset Value (Per Bed)	39,828	39,828	
Number of Beds	<u>40</u>	<u>20</u>	
Deemed Asset Value	1,593,120	796,560	
Improvements Since 1981	268,512	46,635	
Accumulated Depreciation at 9/30/02	<u>(532,424)</u>	<u>(158,942)</u>	
Deemed Depreciated Value	1,329,208	684,253	
Market Rate of Return	<u>.0561</u>	<u>.0561</u>	
Total Annual Return	74,569	38,387	
Return Applicable to Non-Reimbursable Cost Centers	(719)	(10)	
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	
Allowable Annual Return	73,850	38,377	
Depreciation Expense	21,040	21,354	
Amortization Expense	290	626	
Capital Related Income Offsets	(6,189)	(3,094)	
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(146)</u>	<u>(5)</u>	<u>Total</u>
Allowable Cost of Capital Expense	88,845	57,258	\$146,103
Total Patient Days (Minimum 96% Occupancy)	<u>14,016</u>	<u>7,008</u>	<u>21,024</u>
Cost of Capital Per Diem	\$ <u>6.34</u>	\$ <u>8.17</u>	\$ <u>6.95</u>

**JOLLEY ACRES HEALTHCARE CENTER**  
Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended September 30, 2002  
AC# 3-JOL-J2

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$2.19	\$ N/A
Adjustment for Maximum Increase	<u>3.99</u>	<u>N/A</u>
Maximum Cost of Capital Per Diem	\$ <u>6.18</u>	\$ <u>8.17</u>
Reimbursable Cost of Capital Per Diem	\$6.84	
Cost of Capital Per Diem	<u>6.95</u>	
Cost of Capital Per Diem Limitation	\$ <u>(.11)</u>	

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